

## **Payment adjustments for the acute inpatient PPS—indirect medical education, disproportionate share, and capital**

**ISSUE:** Are changes needed in the level and distribution of Medicare’s indirect medical education (IME) and disproportionate share (DSH) adjustments, including the adjustments made to capital payments?

**KEY POINTS:** The IME adjustment pays for the added patient care costs of operating graduate medical education programs (as measured by each hospital’s resident-to-bed ratio), and the DSH adjustment was designed to compensate for the added costs of treating low-income patients (as measured by a low-income patient share).

The Commission’s discussion regarding the IME and DSH adjustments at our last meeting brought out a wide range of perspectives. One side of the argument centered on the accuracy and equity of payments. The other side centered on the role of these payments in funding social benefits that teaching hospitals provide. These issues will be addressed further over the course of our fall meetings. At this meeting, we focus on estimating the effects of teaching intensity and low-income patient care on Medicare costs and on how well IME and DSH payments target hospitals’ reported uncompensated care.

**ACTION:** Commissioners are asked to provide feedback on the analyses presented and their implications for IME and DSH payment policy.

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